AGRICULTURE AND THE FUTURE OF THE TRADING SYSTEM

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I am pleased and honored to be here at the London School of Economics. The LSE, with its worldwide reputation for both scholarship and willingness to look beyond conventional wisdom, is the ideal site for my topic today: agriculture and the trading system of the future.

Today I would like to make three arguments about the years ahead in agricultural trade policy.

First, the partnership between Europe and the United States is essential for progress on agriculture -- or almost any other issue -- in the trading system.

Second, the opportunities the new Round offers us to reduce hunger worldwide, to improve prices for consumers, and to create prosperity in rural areas are immense.

And third, at least in agriculture, we are in some danger of letting that partnership erode and the opportunities slip away.

US-EUROPE RELATIONSHIP

Let me begin with the first point.

America's special relationship with Britain, and our broader partnership with the European democracies, has been the bedrock of peace and prosperity across the Atlantic and worldwide for more than fifty years. It was true during the Cold War; it is true today; and I believe that in trade -- as in the defense of peace, environmental protection and human rights -- it will be true in the twenty-first century as well.

This relationship is rooted in common history, in shared values, and in common destiny. But it has achieved its full potential over the years through patient work on issues of common interest and benefit. Whether in NATO, international finance or any other issue, our relationship today reflects the patient work of Americans and Europeans who have understood the importance of our alliance and our partnership over the fifty years since World War Two.

That continues to be true in trade as well. While we must address our trade disputes in a forthright manner – and I will talk about that in a minute – we must also recognize the much

larger areas in which trade proceeds freely and easily, creating jobs and prosperity on both continents.

Today, the European Union is America's largest economic partner. If you count goods and services trade together, our bilateral trading relationship approached four hundred fifty billion dollars last year and represents one of the fastest growing relationships in the world. To put this in some context, last year U.S. exports to the EU grew by fourteen billion dollars. That growth alone nearly equaled the total of all of our exports to China. Even in agriculture, which for better or worse is the focus of many of our disputes, our bilateral relationship produces nearly fifteen billion dollars in two-way trade.

We also have a record of cooperation in creating an open and fair world trading system in which we can take a great deal of pride. The creation of the GATT in 1948 was above all an initiative of the United States and Britain. Its development over the next fifty years -- cutting tariffs by ninety percent, adding one hundred eleven economies to the original twenty-three, and developing agreements not only on industrial tariffs but agriculture, services, sanitary and phytosanitary standards, intellectual property, technical barriers to trade, information technology, basic telecommunications, and financial services – is a tribute to our ability to define and realize mutual interests.

THE NEXT ROUND

And in the new Round, which both the United States and Europe support and which will begin at the WTO's Third Ministerial Conference in Seattle this November, we have an opportunity to bring this work into the next century.

In this Round, we will work together to open services markets, helping to promote stability and efficiency in the world economy, and address some of the problems -- non-transparency, lack of competition, weak regulation -- which helped spark the financial crisis. We will work to reduce barriers to industrial products, creating opportunities for American factories and offering developing countries greater access to industrial markets. And we will have an opportunity to reform the WTO itself – promoting transparency and accessibility, and improving its cooperation with international organizations in related fields.

Perhaps I am biased, but I believe that nowhere are our opportunities greater than in agriculture. And that is because, to be blunt, despite the progress of the Uruguay Round, agricultural trade today remains burdened by protection, subsidies and unscientific regulation.

– Agricultural tariffs and domestic supports linked to production, which remain very high, reduce world food security by reducing potential sources of food supply.

-- Non-transparent state trading practices harm consumers and producers alike by raising prices and reducing the efficiency of distribution.

-- Agricultural export subsidies impose especially unfair burdens on farmers in the poorest countries.

– And the weak development of regulatory approval for biotechnology in many economies holds back our ability to improve yield, strengthen consumer protection, protect the environment and reduce hunger.

If we have the vision and courage, in the next Round we can eliminate export subsidies; cut tariffs; discipline state trading and domestic supports; and help ensure respect for science. If we do so, the possibilities -- to raise living standards of farm and ranch families, to ensure good prices and healthy food for consumers, to realize the broader humanitarian vision of a world free from hunger and with stronger protection for the land, water and wildlife – are almost unlimited.

THE DANGERS

But I also see significant danger that these opportunities will slip away before the work even begins.

1. Respect for the System

First of all, agreements are only as good as their implementation. To the extent the WTO creates a prosperous, law-abiding and equitable world economy, it will do so not because of negotiations and signatures, but because the WTO members live up to the commitments they make in the talks.

In the Uruguay Round, we set up a system of strong rules and binding dispute settlement. This was something the European Union as well as many other countries wanted. Because the old GATT system for resolving disputes was essentially ineffectual, we agreed to a binding system. I can recall very well how strongly EU officials advised us to rely on that system in 1995 when the United States entered a dispute with Japan over autos by threatening unilateral sanctions under our 301 law. In fact, criticism of "U.S. unilateralism" has been a consistent theme in Europe for years.

The United States has used that system and we have lived by that system. We have used WTO dispute settlement panels to challenge what we believed to be unfair trade practices of other WTO members, and when we have lost cases we have implemented the dispute panel recommendations even when controversial and politically sensitive at home. In fact, while every member of the WTO faced with a loss has taken the steps necessary to bring their laws into compliance, as required, and on-time, the European Union is the only WTO member to do just the opposite. In its first two losses, cases addressing trade in bananas and beef, the EU has failed to comply with back-to-back rulings of the WTO.

These two cases concern, to be honest, a relatively small amount of trade – approximately

four hundred million dollars worth when combined. But they also concern principles and precedents that are of much greater importance to the United States and to the trading system.

The bananas case is the first test of dispute settlement in the General Agreement on Trade in Services. The beef hormone case is fundamentally a question of respect for internationally recognized agricultural science. And both raise questions about whether the EU is prepared to live by the results of WTO panel decisions. If it becomes quite clear that the EU is not ready to do so, neither will Europe's trading partners; and over time the credibility of the WTO as a mechanism to resolve disputes will be seriously undermined. For the United States, the danger will become a lack of public support for using this system to resolve our differences.

Let me say very clearly that we do not want fights on these topics. We would like to focus on the broader agenda, and we hope to work with Europe to resolve these disputes in a mutually satisfactory way. But we are also determined both to assert our own legitimate rights, the rights that we negotiated for when we joined the WTO, and to ensure that the dispute settlement system keeps the respect it has earned.

2. Common Agricultural Policy Reform

That leads me to the second point -- our prospects for improving the system in the next Round.

Inevitably, a central focus of the next Round will be remaining subsidies and protection in developed countries. The Common Agricultural Policy is by far the largest example of these things. And it will be a fundamentally important issue not only for the United States but for the Cairns Group, and the developing countries generally.

Reform is in everyone's interest. The combination of high tariffs and sixty billion dollars in trade-distorting subsidies make European consumers pay prices far above the world market rate for food. Export subsidies in particular -- and the EU's six billion dollars in export subsidies makes up eighty-five percent of the world total -- place an immense and unfair burden on farmers in other countries, in particular poor countries. And there is no reason to assume that farmers in the developed world are unable to compete without them – in fact, our own experience at home shows the opposite.

Likewise, reform of the CAP is absolutely critical to providing the EU with the negotiating flexibility necessary to engage in further trade liberalization in the next Round. But the prospects for reform – thus the prospects for success in the Round and in the opinion of many observers, the EU's own plans for Central European accessions to the EU – are not brightened by the Community's very tepid efforts thus far. Europe cannot afford the status quo, and nor can we.

But the EU seems to be trying to keep it in place. In March, EU heads of state finalized the Agenda 2000 package of policy reforms and financial plans designed to position the EU for

the accession of Poland and other Central and Eastern European countries. The plan the Agriculture Ministers brought to the table was already, to paraphrase Winston Churchill, a modest plan with much to be modest about. It was, however, a plan which took some small steps to move the CAP in the right direction of market orientation and toward eliminating the link between farm supports and production. This promised some greater efficiency in world markets for European producers; better prices for Londoners; and steps toward an improved trading relationship.

But the plan the EU took away from the table, to extend the metaphor, was not just modest but pathologically shy. It shrank some of the proposed reforms; delayed others; and in dairy, increases in milk production quotas may make it difficult for the EU even to stay within its export subsidy limitations under the Uruguay Round, let alone move into the twenty-first century through reform in the new Round.

3. Respect for Science

So we have two problems: one with past commitments; another with present policies. And now let me take up the third – the issues of the future.

As Prime Minister Blair has said, one of the next century's transformational technologies will be biotechnology. This has the potential to transform industries which depend on the life sciences -- agriculture, medicine, health care, perhaps others -- just as telecommunications has transformed finance, transport and other industries.

In the years ahead – if we allow it to develop as it should – it will help develop strains of plants resistant to drought and other natural stresses, along with cures for forms of cancer, aging diseases and birth defects. The promise for improved health and longevity, and higher farm yields that reduce hunger and ease pressure on land, water and wildlife habitat is immense. To quote Sir John Maddox, the retiring editor of *Nature*, in his 1998 book on the future of science <u>What Remains to Be Discovered</u>:

> "The understanding of life that has followed from the structure of DNA ensures that the century ahead will be transformed by engineered forms of plants and animals, and by different and more effective human medicines. ... They will feed the hungry and cure the sick of simple ailments; it is a matter of time only before they can list the kinds of cancers that are curable this year, and those that are on the cards for cure next year or sometime soon afterwards."

Biotechnology also, of course, raises some public and consumer concerns about potential unintended effects. These are natural and understandable, and we must address them squarely. But we must not simply accept concerns which may be natural as concerns which are in fact well-founded. Virtually all foods we now eat, of course, are genetically engineered in some way -- through selective breeding dating back thousands of years and the Green Revolution of the 1950s

and 1960s. Biotechnology speeds the process but has not fundamentally changed the food it produces.

Fair, transparent and scientific regulation should reveal any threats to health and allow us to achieve its maximum potential benefit. The trading system can be a major contributor to this work. We have already seen, in the Uruguay Round's Agreement on Sanitary and Phytosanitary Measures, the establishment of worldwide standards requiring agricultural inspections to be based on science and concern for health rather than trade protection. And the same can be true in biotechnology.

We have developed such procedures at home through our Food and Drug Administration and other government regulatory agencies. In our Transatlantic Economic Partnership talks we are addressing issues arising from the approval system and labeling requirements. But the fundamental problem we face is that the EU's approval system is not science-based, not transparent, and is highly politicized. In fact, it has ground to a halt. No new products have been approved for a year. Even the EU's own attempts to amend the approval legislation are taking years.

This means either that nothing is approved, or that public fears about available products will grow in the absence of information. It should be no surprise that the public is skeptical about the results of today's opaque, nonscientific, non-timely and frankly, politically influenced European system. In fact, the recent manipulation of an unfinished study of hormones should serve as a prime example of why consumers lack confidence in the EU's food regulatory system. Without creation of a better system, a system which is truly based on science and health concerns -- and only on science and health concerns -- we can look forward to the rising threat of a new trade confrontation; and a much larger threat to prospects for any policy to support rural economies, guarantee world food security and fight hunger in the next century.

THE CHOICE

So from an American point of view, we see great opportunities, and we applaud Europe's advocacy of a new Round. But we also see Europe unwilling to live by the commitments of the last Round; taking steps on CAP reform that will make serious commitments in a new Round very hard to conclude; and slow to take serious action on the issues of the next century.

And taking all this into account, what are the choices before us?

Ambassador Barshefsky, Sir Leon Brittan, MITI Minister Yosano and Canada's Trade Minister Marchi were all in Tokyo last week for the Quad meeting. Their hope was that this meeting would begin building consensus on the agenda for a new Round. And in this meeting, the European Union – as it has in the past – argued for a "comprehensive" Round which puts all possible issues on the table.

We agree with the need for a Round, as do Canada, Japan and a number of developing countries. We are looking for a manageable and defined agenda that will allow us to conclude the work within three years -- given the speed of technological change and growth in the world economy, we can no longer afford an eight-year negotiation. But these differences are typical at an early stage, and can be bridged.

What troubles me more is that in agriculture, an issue at the very heart of the agenda for the next Round, we have such ominous signs. In two separate cases, Europe is not implementing the commitment it made in 1995 to honor the results of dispute settlement panels; its actions on CAP reform thus far make success on the major market access issues more difficult; and it is acting so slowly on the creation of a modern regulatory process for biotechnology as to make new trade disputes appear more likely all the time.

On the other hand, these are warning signs rather than irrevocable steps. There is no reason we cannot resolve our disputes on bananas and beef, on the basis of the WTO rulings thus far; the EU has much more work ahead on CAP reform; and we are both working, in good faith, on biotechnology through the Transatlantic Economic Partnership.

CONCLUSION

And if we can meet these challenges, we will be in very good shape as the Round begins; and we can move on to the goal that is in our interest, and in the interest of the world.

That is the construction of an agricultural trading system that gives farmers and ranchers a secure future on the land; which gives consumers safe and healthy food at market prices; and which does its part to ensure that no child in the twenty-first century goes hungry.

This is a great challenge. But that is what we should expect for ourselves. It is a worthy successor to the work America and Europe have done together for fifty years: creating prosperity for our people and the world; keeping the peace; advancing science; and promoting the values we share.

It is my hope and my conviction that we will do just as much in the years ahead.